prudent manner resulting in defaults in the maintenance of SLR.

The credit appraisal was deficient in several respects. It had violated the prudential exposure norms for single/group borrowers. Post disbursement supervision was slack in many respect and end use of the funds were not ensured.

The banks had not followed the guidelines relating to income recognition asset classification and provisioning.

The internal control system suffered from several deficiencies and certain important control returns were not introduced.

There was increase in credit portfolio without proper appraisal leading to mounting of NPAs. The loan accounts of some directors were irregular.

(c) and (d) RBI has reported that it has not called for the Annual audit Reports of these banks. The Annual audit of Urban Co-operative Banks is carried out by the officials of the Co-operative Department of the concerned State Government. However, RBI periodically conducts statutory inspection under provisions of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). Suitable action has been taken by RBI based on the findings of the recent statutory inspection of the above banks.

Value Added Tax System

†41. SHRI P.K. MAHESHWARI: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that Government have taken a decision to implement the value added tax system in the country;

(b) if so, by when the same will be implemented;

(c) whether it is also a fact that the prices of most of the commodities will increase upto 10 per cent due to VAT;

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†Original notice of the Question was received in Hindi.

(d) whether arrangements have been made by Government to ensure that consumers are not affected by VAT; and

(e) if not, the reasons therefor?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI GINGEE N. RAMA CHANDRAN): (a) and (b) In a Conference of State and Union Territory (UT) Finance Ministers held on 23 January 2002, the States and UTs finally decided to introduce Value Added Tax (VAT) in their respective areas with effect from 01 April 2003.

(c) to (e) The existing sales tax system in operation in States and UTs has several disadvantages, like a comparatively narrower tax base, multiplicity of rates and various types of surcharges loaded on these rates. This leads to cascading of taxes which, in turn, raises the prices of goods and commodities. Moreover, the sales tax is origin-based in nature. On the other hand, the proposed VAT system would have a wider tax base, fewer rates, agreed lists of goods and commodities subject to each rate slab and taxation of the value added component at each stage. Moreover, the proposed VAT system would be more oriented towards destination-base. Properly implemented, the VAT system is expected to benefit manufacturers, traders as well as consumers.

Winding up of Income Tax Settlement Commission

42. SHRI K. RAMA MOHANA RAO: Will the Minister of Finance be pleased to state:

(a) whether it is fact that Government are thinking of winding up of Income Tax Settlement Commission;

(b) if so, the details thereof;

(c) the reasons for winding up of the Commission;

(d) whether Government have made any alternative arrangement in lieu of the above Commission; and

(e) if so, the details thereof?